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COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

OVERSIGHT INITIATIVE REPORT

FROM THE

SUBCOMMITTEE ON OVERSIGHT

PENSION BENEFIT GUARANTY CORPORATION'S PROGRAM TO IDENTIFY, COLLECT, AND ACCOUNT FOR PREMIUM PAYMENTS

INCLUDING FINDINGS AND RECOMMENDATIONS OF THE SUBCOMMITTEE

Report No. 4

NOVEMBER 7, 1991

Prepared for the use of the Committee on Ways and Means by its staff

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LETTER OF TRANSMITTAL

COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON OVERSIGHT,
Washington, D.C., November 7, 1991.

The Honorable DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
U.S. House of Representatives, Washington, D.C.

DEAR CHAIRMAN ROSTENKOWSKI: We are submitting to the Committee on Ways and Means the report of the Subcommittee on Oversight on the Pension Benefit Guaranty Corporation's (PBGC) program to identify, collect, and account for premium payments. The report was approved by the Subcommittee on a bipartisan basis on November 7, 1991, and is the result of the Subcommittee's August 1, 1991, hearing on the subject. We respectfully request that the Committee on Ways and Means review the Subcommittee's report and take action on the Subcommittee's recommendations therein in a timely manner. The attached report provides a brief background on PBGC's premium program, the reasons for the Subcommittee's hearing, and the Subcommittee's recommendations for administrative reforms and increased oversight activity.

In 1974, PBGC was established under Title IV of the Employee Retirement Income Security Act (ERISA) to insure the retirement income of participants in qualified private defined-benefit pension plans. PBGC is a Government-owned, self-financed corporation with its primary funding source consisting of premium income collected from employers sponsoring these plans.

Since 1974, our Committee has needed to consider the adequacy of premiums, in light of PBGC's increasing deficit on numerous occasions, to ensure PBGC's continued solvency. Single-employer premiums were increased in 1978, 1986 and 1988, rising from a flat rate of $1 per participant in 1974, to a flat rate of $19 per participant, plus a variable rate of $9 per each $1,000 per participant of the plan's unfunded vested benefits. The maximum single-employer premium is $72 per participant in 1991. The Multiemployer Pension Plan Amendments Act of 1980 added multiemployer plans to the PBGC's insurance program with a premium of 50 cents per participant, which has since risen to $2.60 per participant.

Despite increases in PBGC's premiums and other legislative changes to limit PBGC's exposure, most recently in 1987, PBGC continues to show weaknesses in its financial condition. PBGC reported a loss of $928 million at the end of fiscal year 1990. Further, at that time, PBGC showed an accumulated deficit of $1.8 billion, and indicated that single-employer plan terminations could cause this to increase to $11.4 billion by the end of fiscal year 2000. How-

ever, PBGC reported ample assets and cash-flow to pay liabilities through the end of the decade.

Earlier this year, the Subcommittee received two reports: an audit report of PBGC's Inspector General and a financial statement audit report by the Comptroller General of the United States. These reports raised questions relating to PBGC's program to process, collect, and account for premium income and data related to premium payments. The Subcommittee was concerned that the reported weaknesses in PBGC's premium-processing system and its financial statements pose a threat to the continued integrity of the premium-based insurance system.

On August 1, 1991, the Subcommittee conducted a hearing to receive testimony on the Inspector General's and the Comptroller General's findings and review those findings with the PBGC's Executive Director, Mr. James B. Lockhart, III. The Subcommittee found: PBGC's premium-processing system's computer functions were not operational for two years; PBGC does not have an effective compliance system; management of the pension-guarantee system is impaired by unauditable financial statements and accounting system weaknesses; PBGC does not properly handle certain premium payments remitted to its Washington office; and, PBGC and Congress do not have the information necessary to fully and accurately assess the current premium structure.

The Subcommittee recommends the following--

1. With regard to PBGC's premium-processing system's computer function: (a) GAO conduct a study and report on interim and replacement systems; and (b) PBGC commit to development of a comprehensive premium-processing system under the most stringent timetables, while taking action to ensure collection of delinquent 1988 premiums prior to expiration of the statute of limitations;
2. With regard to PBGC's compliance program: (a) PBGC match PBGC and IRS data annually, and (b) undertake a pilot examination program;
3. With regard to PBGC's unauditable financial statements and accounting system weaknesses: (a) GAO monitor and report on progress to reduce internal control and accounting The Honorable Dan Rostenkowski weaknesses, (b) PBGC eliminate basic accounting system weaknesses, (c) PBGC establish procedures to verify reliability of its liability for future benefits, and (d) PBGC continue to include the Comptroller General's audit report on PBGC's financial statements in its annual reports;
4. With regard to inadequate control of premium payments received at PBGC's Washington, D.C., office, that PBGC implement mandatory control procedures; and,
5. With regard to the use of estimated premium income amounts, PBGC provide the Subcommittee with: (a) reliable premium data before any consideration of increases in premiums; and (b) two annual PBGC reports, the first listing plans with underfunding in excess of $25 million and the amount of such underfunding, and the second listing plans with underfunding in excess of $5 million that have been granted a minimum-funding waiver according to publicly discloseable information.

The Subcommittee believes that the adoption of these recommendations is essential to improving administration of PBGC's program to identify, collect, and account for premium payments and to restoring the integrity of our pension insurance system.

Sincerely,

RICHARD T. SCHULZE,
Ranking Minority Member.

J. J. PICKLE,
Chairman.

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REPORT OF THE SUBCOMMITTEE ON OVERSIGHT ON THE PENSION BENEFIT GUARANTY CORPORATION'S PROGRAM TO IDENTIFY, COLLECT, AND ACCOUNT FOR PREMIUM PAYMENTS

BACKGROUND

The Pension Benefit Guaranty Corporation (PBGC) was established in 1974 under Title IV of the Employee Retirement Income Security Act (ERISA) to protect the retirement income of participants covered by private defined-benefit pension plans qualified under Section 401 of the Internal Revenue Code.

PBGC is a Government-owned corporation and its board of directors is comprised of the Secretary of Labor, the Secretary of Commerce, and the Secretary of the Treasury. PBGC is self-financed through insurance premiums paid by employers for ongoing defined-benefit pension plans, assets from terminated plans, investment from assets, and employer-liability receivables. PBGC is required to determine the lowest possible premiums necessary to meet its commitments.

Currently, PBGC insures the benefits of nearly 40 million pension plan participants, 31 million of whom are covered by approximately 93,000 single-employer plans, and 8 million of whom are covered by approximately 2,300 multiemployer plans. According to PBGC's 1990 Annual Report, the private defined-benefit plans which it insures are well-funded with $800 billion in liabilities, backed by $1 trillion in assets. Yet, approximately $20–$30 billion in underfunding exists in pension plans operating in the steel, airline, and automobile industries.

In 1990, PBGC paid $372 million in benefits to more than 112,500 plan participants. In addition, there are 95,500 participants, not yet retired, entitled to receive benefits in the future, and 138,000 participants in plans that PBGC reports will terminate in the future.

PBGC reports an accumulated deficit through September 30, 1990, of $1.8 billion comprised of actual and probable accumulated losses for the single-employer fund of $1.91 billion, and an accumulated surplus for the multiemployer fund of $132 million. However, the 1990 Annual Report notes that PBGC has ample assets and cash-flow to meet its liabilities "for a considerable period of time."

The primary source of cash for PBGC is premium income, which in 1990 totalled $680.6 million. Single-employer and multiemployer defined-benefit pension plans covered by ERISA must pay PBGC annual premiums. Single-employer, flat-rate premiums increased for defined-benefit pension plans from $16 to $19 per participant in the Omnibus Budget Reconciliation Act of 1990 (OBRA). OBRA also increased the variable risk-related premium from $6, to $9 per each $1,000 per participant of the plan's unfunded vested benefits. The maximum single-employer premium is $72 per participant in 1991.

The most recent legislation affecting the multiemployer premium was the Multiemployer Pension Plan Amendments Act of 1980. The current multiemployer-plan premium is $2.60 per participant.

Plan sponsors and plan administrators file the "Annual Premium Payment Form 1" or the "Estimated Premium Payment Form 1-ES," and remit premiums to PBGC through a lockbox contractor located in Atlanta, Georgia. The premium payments are deposited by the lockbox contractor, and the applicable form and copy of the payment check is forwarded to PBGC's office in Washington, D.C., for processing. Premium payments are based upon the number of participants on the preceding year's Form 1. The due dates for premium payments vary according to plan size, plan year, and type of premium, e.g., flat rate or variable rate.

The Department of Labor (Labor) and the Internal Revenue Service (IRS) have primary responsibility for enforcing the laws governing the fiduciary responsibilities and funding levels under ERISA. However, neither of these agencies is empowered to assess and collect delinquent pension-premium payments. PBGC maintains sole responsibility for ensuring premium collection. PBGC's enforcement program involves a comparison of data maintained by PBGC with records maintained by the IRS, Labor, and the Securities and Exchange Commission (SEC). PBGC does not have any direct field-examination program. PBGC's current compliance operations are comprised of mailing past-due notices to plans which failed to file with PBGC. Nonfiling plans are determined either by looking at prior year PBGC filings or matching IRS Form 5500 data.

Subcommittee on Oversight Hearing

The Subcommittee on Oversight continually reviews issues relating to retirement security, including the adequacy of PBGC's premium rate, the sound funding of insured pension plans, and the effect of these on the solvency of PBGC's insurance funds. Over the past decade, the Congress has acted repeatedly to improve the financial solvency of PBGC by increasing both its income from premiums, and its ability to recover from plan sponsors the losses due to the termination of underfunded pension plans. In addition, the Congress has acted to reduce the exposure of PBGC by enacting tougher funding rules for underfunded pension plans, and by restricting the ability of plan sponsors to obtain waivers of the required minimum-funding contributions.

Earlier this year, the Comptroller General of the United States issued a letter to PBGC's Board of Directors indicating material weaknesses in the financial statements of PBGC. The Comptroller General reported that "the Corporation's estimated liability for guaranteed benefits was unauditable because of the nature and extent of weaknesses in the Corporation's process for estimating its fiscal year-end liability." The Comptroller General cautioned that "the Corporation's September 30, 1990, financial statements have limited reliability." (Attachment A)

Further, PBGC's Inspector General issued an audit report on the premium-processing system disclosing that "management control weaknesses adversely affect PBGC's ability to fulfill its mission." The Inspector General identified the following weaknesses during

the April-October 1990 audit period: "(1) inability to determine the total number of defined-benefit pension plans that are required to pay premiums; (2) inaccurate and incomplete premium information; (3) inability to collect premiums that are due; (4) reliance on estimated figures for a substantial portion of the reported premium income on the Corporation's Financial Statements; and (5) since August 1988 the computer system that maintains premium information has not been functional." (Attachment B)

In light of these reports, the Subcommittee on Oversight was concerned about the conduct of PBGC's operations, and whether such conduct was conflicting with PBGC's mission and jeopardizing the integrity of the pension insurance-premium system.

The Subcommittee conducted a hearing on August 1, 1991, to determine the effectiveness of PBGC's activities to identify, collect, and account for premium payments required for certain single-employer and multiemployer plans.

SUBCOMMITTEE'S FINDINGS

1. PBGC's premium-processing system's computer functions were not operational for over two years.

PBGC's Inspector General and the U.S. General Accounting Office (GAO) reported that PBGC did not process premium-related data for more than two years, from August 1988 to November 1990. PBGC reported that the computer system was back up in April 1990. According to testimony, PBGC's premium-processing system's computer (developed in 1979) failed when modifications to the system were undertaken in order to accommodate the 1986 premium increase and the 1988 variable rate.

During the computer failure, PBGC received Forms 1 and deposit records from the lockbox contractor. Premium information was entered from the Forms 1 into a separate computer records system which was not compatible with the premium-processing system's main data base. As a result, PBGC had no single source of premium information from which to operate, and the premium-processing system's computer served only as a source of pre-1988 data.

All premium accounting and collection activities were performed manually. The system could not generate balance-due notices, the backlog of unresolved and uncorrected transactions reached 45,000, the backlog of refund requests reached 3,000, and variable-rate premium data was not processed.

Currently, according to PBGC the premium-processing system's computer enables issuance of refund checks on a timely basis, processing of premium payments and plan account information, accurate determination of unpaid premiums for all pre-1988 plan years, issuance of past due filing notices to non-filers in plan years 1987–1990, and comparison of PBGC Form 1 data with IRS Form 5500 data.

Further, PBGC reported that by mid-fiscal year 1992 the system will be able to generate notices for unpaid premiums for post-1988 plan years. Finally, PBGC indicated that a consultant has been hired to develop a new computer system for operation no later than January 1, 1994.

However, currently the system can not identify, collect, and account for variable-rate-premium data from 1988 to the present. Further, there is no manual activity involving the variable-rate premium occurring to supplement the computer system's inability. The statute of limitations on collection of delinquent variable-rate premiums for 1988 will expire in 1994. The Inspector General's audit report noted that, due to the statute of limitations, PBGC "will have to write-off most, if not all, delinquent premiums for the 1988 plan year."

The Subcommittee is concerned with PBGC's failure to successfully continue processing flat-rate- and variable-rate-premium payment information. While the premium-processing system's computer crashed in 1988, it is disappointing for PBGC to report to the Subcommittee that it hopes to have a new system in place in 1994—six years later. The Subcommittee believes that PBGC should commit the resources necessary for interim processing of variable-rate-premium information. Since PBGC did not have automated or accounting systems for premiums in 1990, PBGC, Congress, and others were forced to utilize estimates of premium income, and this must not continue. PBGC needs to provide a full and accurate accounting of single-rate and variable-rate premiums collected.

2. PBGC does not have a compliance program in effect to fully identify and collect premium payments.

PBGC's Inspector General and GAO found that problems with PBGC's premium-processing system's computer affected PBGC's ability to ensure compliance with premium-payment requirements. During the audit period, the Inspector General found that the premium accounting and collection program was unable to determine the number of plan sponsors required to pay premiums, to maintain and use accurate and complete premium information, to compute and collect premiums due, and to ensure compliance with the requirements for collecting premium revenue.

GAO had similar findings noting that, without an operating premium-processing computer system, PBGC was unable to perform the basic functions necessary to enforce premium-payment requirements. The two-year system failure prevented PBGC from posting premium data to the appropriate files, processing premium data, verifying the accuracy and completeness of data, identifying information or data warranting action, generating automated refund notices or billing notices, and controlling and reporting premium-related accounting information. GAO concluded that, due to premium-processing system weaknesses, it is not possible to determine whether PBGC is, in fact, receiving the premiums that are due.

In addition to failing to identify premium payments due through the premium-processing computer system, the Subcommittee heard testimony that PBGC did not independently monitor compliance by auditing pension plans. There were no auditing activities despite the automated premium-processing system's computer's inability to perform basic functions to verify plan information.

The present compliance program is a data-matching program. In order to determine whether the information contained on the Form 1 and the corresponding premium payment is accurate,

PBGC relies on data filed with IRS on Form 5500. A match of IRS and PBGC data is utilized to attempt to identify covered plans that have never paid premiums, or that paid too little because of improper computations or under-reported plan participants.

PBGC's Inspector General testified that, as of October 1990, PBGC's most recent match of Form 1 information involved the Form 5500 for plan year 1982–83. PBGC responded to the findings of the Inspector General by noting that a sample study of Form 1 and Form 5500 data, conducted by PBGC in 1989, found noncompliance levels of approximately two percent (approximately $14 million unpaid premiums). PBGC testified that a match of the Form 5500 was undertaken the week of the hearing. Further, PBGC indicated that it has hired one premium auditor and intends to add a few more.

The Subcommittee is concerned that PBGC does not have a compliance program in effect to identify unpaid, overpaid, and underpaid premiums. Further, the Subcommittee believes PBGC's current compliance program is not balanced as a result of having no active, on-site examination program to verify the accuracy of flat-rate- and variable-rate-premium payments and the extent of PBGC's exposure due to plan underfunding. The Subcommittee concurs with GAO's opinion that, while the matching program with IRS is a useful compliance tool, the matching program is not enough to effectively monitor the plans.

3. PBGC's unauditable financial statements and accounting system weaknesses continue to impair management of the pension guarantee system.

GAO undertook an audit of PBGC's financial statements for the fiscal year ending September 30, 1990, at the request of PBGC. GAO determined that it was not possible to express an opinion as to the fair presentation of PBGC's financial statement due to serious internal-control and system weaknesses. The financial statements were unauditable because GAO was unable to assess the reliability of PBGC's $4.8 billion estimate of its liability for future benefit payments to pensioners.

The problems identified by GAO were not unique to the financial statements included in the 1990 Annual Report. GAO reported that in previous attempts to audit the financial statements, similar problems were identified, some back as far as the late 1970s. While PBGC is not the first Government agency with unauditable financial statements, it is the only agency which has not shown improvement in subsequent years, according to GAO. GAO concluded that the "recurring nature of these weaknesses demonstrates an ineffective commitment by PBGC to establishing and maintaining effective internal controls and sound financial systems."

GAO also reported on weaknesses in PBGC's accounting system, which included operating for six months in 1990 without a general ledger system, and for an entire year without basic accounting procedures to record revolving and trust fund transactions.

GAO summarized that weaknesses in the aforementioned operations have hindered PBGC's ability to reliably: account for and control assets acquired through terminations; measure its liabilities for future benefit payments; allow a determination as to whether

premium levels are adequate to meet long-term obligations; and report on its financial condition. The Subcommittee agrees with GAO's findings that an inoperative general ledger system and the absence of accounting procedures placed PBGC's assets at risk, jeopardized the credibility of its financial statements, and impaired management of the pension-guarantee program.

4. PBGC has not implemented a system to effectively control premium payments forwarded to the Washington, D.C., office.

PBGC's Inspector General reported that premium payment checks sent to the Washington, D.C., office, rather than to the lockbox contractor in Georgia, are not controlled. Uncashed checks come through the mail room to various employees, and are not recorded or safeguarded by the employees. Further, these checks are not always expeditiously forwarded to the lockbox bank in Georgia for deposit and handling. The Inspector General noted that seven uncashed checks, all dated September 1988, were discovered in 1990 by a contractor microfilming previously negotiated checks. The failure to control and timely deposit premium payments received in Washington, D.C., is not insignificant--as many as 140 checks, in amounts up to $100,000, may arrive in this office in a week.

The Subcommittee finds PBGC's failure to monitor the handling of payments and to require employee compliance with control procedures to be a serious shortcoming.

5. Neither PBGC, nor GAO nor the Congress can know whether or not the current flat-rate- and variable-rate-premium structure is appropriate for meeting PBGC's mission.

The adequacy of premium levels cannot be determined until weaknesses in the premium-processing system are resolved. GAO indicated that questions regarding the correctness of current premium amounts cannot be resolved until there is good information on premiums received and good information on the exposure of the funds due to underfunding. GAO noted that such information depends upon improving the management of PBGC.

The Subcommittee believes that correct data on the collection and source of premiums is critical to the integrity of the system and to responsible planning for future benefit payments. A failure to accurately measure premium amounts impairs PBGC's mission and may increase the exposure of the Federal Government to significant liability.

Subcommittee's Recommendations

1. With regard to PBGC's premium-processing system's computer functions, the Subcommittee recommends that: (1) GAO conduct a full study of PBGC's premium-processing system and report to the Subcommittee and PBGC on interim and replacement premium-processing systems which enable full and accurate accounting of single-rate- and variable-rate-premium income; (2) PBGC commit all resources necessary to develop and implement a comprehensive premium-processing system under the most stringent timetables recommended by PBGC's consultant and GAO; and (3) PBGC take

action to ensure collection of delinquent 1988 premiums, especially variable-rate premiums, prior to the expiration of the statute of limitations.

2. With regard to PBGC's compliance program, the Subcommittee recommends that PBGC conduct an annual matching of PBGC's Form 1 and IRS's Form 5500 data. Further, the Subcommittee recommends that PBGC undertake a pilot-field-examination program in fiscal year 1992, with a goal toward establishing a field-examination program by fiscal year 1993.

3. With regard to PBGC's unauditable financial statements, and accounting-system weaknesses, the Subcommittee recommends that: (1) GAO monitor PBGC's progress in reducing internal-control and accounting-control weaknesses, and report to the Subcommittee on PBGC's progress on February 1, 1992; (2) PBGC eliminate weaknesses in basic accounting controls; (3) PBGC establish procedures to verify the reliability of its liability for future benefits; and (4) the Annual Report of PBGC continue to provide the findings of GAO as to the reliability of the statements contained therein.

4. With regard to PBGC's inadequate control of premium payments received in Washington, D.C., the Subcommittee recommends that PBGC implement mandatory procedures to ensure the control and the security of premium payments, and to ensure maximum revenue through timely deposits of premium payments.

5. With regard to the use of estimated-premium-income amounts, the Subcommittee recommends that premium increases, in future years, be predicated on reliable data as to current premium income, the solvency of the funds, and the necessity of the premium-amount increase sought. Further, the Subcommittee requests that, on January 31 each year, PBGC report to the Subcommittee on: (1) plans with underfunding in excess of $25 million and the amount of the underfunding; and (2) plans with underfunding in excess of $5 million that have been granted a minimum-funding waiver according to publicly discloseable information. The Subcommittee requests that PBGC notify companies of possible inclusion on either listing.

GAO

United States
General Accounting Office
Washington, D.C. 20548

ATTACHMENT A

Comptroller General
of the United States

B-164292

To the Board of Directors of the
Pension Benefit Guaranty Corporation

At the request of the Pension Benefit Guaranty Corporation's Executive Director and in accordance with our authority under the Government Corporation Control Act (31 U.S.C. 9101-9110), we undertook an audit of the Corporation's financial statements for the fiscal year ended September 30, 1990. The financial statements were prepared by Corporation management and are its responsibility. Our audit objective was to obtain reasonable assurance, and express an opinion, on whether the financial statements present fairly, in all material respects, the Corporation's financial position and results of operations in conformity with generally accepted accounting principles. We determined during our preliminary audit work that the Corporation's estimated liability for guaranteed benefits was unauditable because of the nature and extent of weaknesses in the Corporation's process for estimating its fiscal year-end liability. Considering the liability's material effect on the financial statements, we did not complete the audit, and we do not express an opinion on these financial statements.

Because of the material weakness in internal controls over the liability for guaranteed benefits and other material weaknesses we identified, we caution users that the Corporation's September 30, 1990, financial statements have limited reliability. The internal control weaknesses we identified are as follows.

- The Corporation was unable to demonstrate the reliability of its estimated liability for guaranteed benefits at fiscal year-end because of unexplained variations in preliminary tests of its plan estimates, weaknesses in estimating system software, and incomplete and missing data on pension beneficiaries. These conditions preclude us from evaluating whether the Corporation's fiscal year-end $4.8 billion estimated liability is fairly presented.

- Premium income may be misstated in the financial statements, and premiums due may not have been collected because of failure to promptly process premium related filing data reported by plan sponsors. Premium filing data were not processed during fiscal year 1990 because the processing system was not updated to accommodate changes in the Corporation's premium structure. While the Corporation continued to receive and deposit premium payments which accompany premium filings, not processing the filing data reduced substantially the Corporation's capacity to evaluate and, as necessary, follow up on the accuracy and completeness of premium filings by plan sponsors.

- Weaknesses in basic accounting controls, including the failure to regularly reconcile cash and investments and the lack of an operating general ledger system for trust accounting during the first 6 months of fiscal year 1990, prevented the Corporation from ensuring that financial information was promptly and accurately reported. These weaknesses expose the Corporation to the potential loss of assets.

The Corporation's financial statements show a loss of approximately $780 million for fiscal year 1990, increasing its unfunded deficit to over $1.7 billion. This is not an immediate liquidity problem because the Corporation has $2.6 billion in cash and investments, plus annual premium income of approximately $680 million, available to pay administrative expenses and benefits on terminated plans. Although not necessarily indicative of future cash requirements, administrative expenses and benefit payments reported in the financial statements for fiscal year 1990 were approximately $437 million. Instituting financial management reforms will provide a more reliable picture of the Corporation's financial condition, including the claims it must be able to satisfy in the future.

The Corporation's financial future depends upon the continued broad-based participation in the insurance program by pension plan sponsors and the amount of future liabilities the Corporation may incur as a result of

- an increase in termination claims on underfunded plans that are likely to arise from a general downturn in the economy, as well as the Corporation's exposure from the airline industry and other troubled sectors of the economy and

- weaknesses in oversight of pension plans, including limited scope audits of private pension plans.

Corporation management has acknowledged the significance of the internal control weaknesses we identified and noted that it has begun efforts to address them. We are encouraged by the response and will continue to closely monitor the Corporation's progress.

Charles A. Bowsher
Comptroller General of the United States

January 3, 1991

ATTACHMENT B

Pension Benefit Guaranty Corporation

Office of Inspector General

AUDIT REPORT

REVIEW OF PREMIUM PROCESSING AND CONTROLS

January 29, 1991

91-1/23052

Review of Premium Processing and Controls

Audit Report 91-1

EXECUTIVE SUMMARY

One of the Corporation's missions is to maintain the premium rate at the lowest possible level consistent with carrying out PBGC's obligations. In order to accomplish this mission, and to be fair and credible to the PBGC's premium payers and the public, the Corporation must ensure that it maintains effective premium accounting, collection, and enforcement programs. These programs should ensure that the Corporation is effectively identifying, collecting, and accounting for all its entitled premium income. An administrative Premium Operations Division (POD) has been established within the Financial Operations Department (FOD) to centralize a broad range of premium programs. Organizationally, the POD consists of an Accounting Controls Branch (ACB) and a Collections Processes Branch (CPB).

Our review of the Corporation's premium programs disclosed that existing management control weaknesses adversely affect the PBGC's ability to fulfill its mission. These weaknesses include: (1) inability to determine the total number of defined benefit pension plans that are required to pay premiums, (2) inaccurate and incomplete premium information, (3) inability to collect premiums that are due, (4) reliance on estimated figures for a substantial portion of the reported premium income on the Corporation's Financial Statements, and (5) since August 1988, the computer system that maintains premium information has not been functional. Finally, a breakdown in the existing management controls within POD, has led to problems with the integrity of the work performed, and an environment that may be conducive to illegal, or unauthorized acts.

FINDINGS AND RECOMMENDATIONS

This report addresses weaknesses in the administration of the Corporation's premium program. Our report provides recommendations for corrective action to strengthen management controls surrounding the Corporation's cash receipts operations including premium accounting, collections, and enforcement in order to promote: (1) pursuing unpaid and delinquent premiums, underpayments, interest and penalty charges, billings, overpayments from terminating plans and (2) monitoring and controlling input and output to the automated and manual portions of the premium system to ensure accuracy and completeness of information. In our opinion, if these recommendations are implemented, PBGC can reduce the risks which lead to loss of income or other potentially vulnerable situations. Our findings and respective recommendations detailed in the body of this report, are summarized below.

ERRATUM FOR WMCP:102–24

REPORT OF THE SUBCOMMITTEE ON OVERSIGHT ON THE PENSION BENEFIT GUARANTY CORPORATION'S PROGRAM TO IDENTIFY, COLLECT, AND ACCOUNT FOR PREMIUM PAYMENTS

On page IV, recommendation 3 should read as follows:

3. With regard to PBGC's unauditable financial statements and accounting system weaknesses: (a) GAO monitor and report on progress to reduce internal control and accounting weaknesses, (b) PBGC eliminate basic accounting system weaknesses, (c) PBGC establish procedures to verify reliability of its liability for future benefits, and (d) PBGC continue to include the Comptroller General's audit report on PBGC's financial statements in its annual reports;

H782-46

ERRATA